Maruti Suzuki

Celerio AMT test drive- Will it have a broad based appeal?

PhillipCapital

PhillipCapital (India) Pvt. Ltd.

AUTOMOBILES: Company Update

26 February 2014

We (myself and 4 other colleagues including a female driver) took a test drive of Maruti's *Celerio* with Automated Manual Transmission technology. On the positive side, the AMT offers convenience (particularly in traffic) with great fuel economy and in the clutch less manual mode the ride is pretty smooth. On the other hand, in the automatic mode, the gear shifts are uneven contributing to a poor ride. Also, the product seems to have been priced a tad bit on the higher side. Overall, while it is certain to attract attention, it remains to be seen whether the vehicle appeals to a broad base of consumers or will be confined to a niche category (first time drivers; women).

Is the AMT smooth enough? The AMT version has the option of driving in an automatic mode or in a clutchless manual mode. Our experiences with the two were vastly different.

- **Automatic mode:** The AMT is not a conventional automatic (it does not have torque convertor) – it basically utilizes hydraulic and electrical actuators to automate the gear shifts (read page 4 for details). While this ensures high fuel economy and lower costs, it leads to a compromised ride quality. During the gear shifts there was a perceptible power loss. The lack of extra acceleration makes overtaking a little challenging.
- **Manual mode:** In the manual mode, the vehicle is as responsive as any other manual. The clutch less transmission makes driving easier without affecting the drive quality. The fact that the gears automatically downshift to prevent the engine from stalling is a further convenience.

Is the price aggressive enough? On the positive side, the AMT is priced just about Rs 45,000 more than the Celerio's manual version. This compares favourably to conventional automatics that are typically priced ~Rs100,000 more than the manual versions.

However, on an absolute level, the price of the Celerio AMT is higher than the effective on-road price of a similar version of the *Ritz* and ~ 6% lower than the *Swift*. Hence, a buyer would face the dilemma of choosing between a premium, more powerful better featured hatchback and the Celerio with the AMT.

Does the car have enough features? Maruti seems to have gone ahead with a "safe" look for the Celerio – the rear has the looks of the *Alto* while the front has wrap around lamps (ala the *Stingray*). Overall, the vehicle is unlikely to attract attention but will not turn off too many people. On the other hand, the interiors seem roomier than the Wagon R but falls short of the space in a *Swift/Ritz*.

Further while the car has a feature list worthy of an entry level hatchback; it pales when compared to a *Swift/Ritz*. This is important considering the minimal price differential between the *Celerio AMT* and the *Ritz/Swift*.

Outlook – strong innovation; trying to create a market. MSIL has taken a bold move in trying to shift the Indian market towards the automatic. We believe that while the technology offers great convenience, the diffident ride quality and slightly higher price point may be a deterrent. While the vehicle will definitely attract attention, its appeal to a broad customer base may not be a certainty.

NEUTRAL

MSIL IN | CMP RS 1666

TARGET RS 1520 (-9%)

Company Data

O/S SHARES (MN) :	302
MARKET CAP (RSBN) :	506
MARKET CAP (USDBN) :	8.2
52 - WK HI/LO (RS) :	1860 / 1215
LIQUIDITY 3M (USDMN) :	26.9
FACE VALUE (RS) :	5

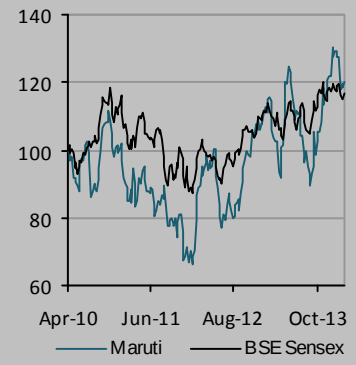
Share Holding Pattern, %

PROMOTERS :	56.2
FII / NRI :	21.6
FI / MF :	14.0
NON PROMOTER CORP. HOLDINGS :	6.1
PUBLIC & OTHERS :	2.2

Price Performance, %

	1mth	3mth	1yr
ABS	-5.4	-0.1	16.2
REL TO BSE	-4.1	-1.3	8.3

Price Vs. Sensex (Rebased values)



Source: Bloomberg, PhillipCapital India Research

Other Key Ratios

Rs, mn	FY14E	FY15E	FY16E
Net Sales	413,411	471,751	541,448
EBITDA	52,581	60,317	67,136
Net Profit	28,585	33,321	38,131
EPS, Rs	94.6	110.3	126.2
PER, X	17.7	15.2	13.3
EV/EBIDTA, x	9.5	8.1	6.9
EV/Net Sales, x	2.5	2.2	1.9
ROE, %	14.1	14.3	14.2
Debt/Equity (%)	6.9	6.0	5.2

Source: PhillipCapital India Research Est.

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Net of discounts the Celerio AMT VXI would be more expensive than the Ritz

Particulars (in Rs)	Maruti Celerio Vxi AT	Maruti Ritz Vxi	Maruti Swift Vxi	Wagon R Vxi	Maruti Ritz Lxi	Maruti Swift Lxi
On Road Mumbai	533473	552094	583353	493786	517742	533874
Cash Discounts		3000		19500	3000	
Price before Loyalty/Exchange bonus	533473	549094	583353	474286	514742	533874
Loyalty/ Exchange Bonus		25000	10000	15000	25000	10000
Price After Loyalty/Exchange bonus	**533473**	**524094**	**573353**	**459286**	**489742**	**523874**

Source: Company, PhillipCapital India Research

Celerio is big on mileage but power/dimensions fall short of the premium hatchbacks

Particulars	Maruti Celerio Vxi AT	Maruti Ritz Vxi	Maruti Swift Vxi	Maruti WagonR Vxi	Hyundai i10 Sportz	Honda Brio EX MT
Length (mm)	3600	3775	3850	3539	3585	3610
Width (mm)	1600	1680	1695	1495	1595	1680
Height (mm)	1560	1620	1530	1670	1550	1500
Turning radius (m)	4.7	4.7	4.8	4.6	4.7	4.5
Kerb Weight (Kg)	830	1015	970	885	890	920
Engine Size (cc)	998	1197	1197	998	1086	1198
ARAI Mileage (Kmpl)	23.1	18.5	18.6	20.5	19.81	18.9
Maximum Power (PS/rpm)	67 @ 6000	85 @ 6000	85 @ 6000	67 @ 6200	68 @ 5500	87 @ 6000
Transmission Type	Semi - Automatic	Manual	Manual	Manual	Manual	Manual

Source: Company, PhillipCapital India Research

The Celerio lacks certain features when compared to the Ritz/Swift

Particulars	Maruti Celerio Vxi AT	Maruti Ritz Vxi	Maruti Swift Vxi
Steering Adjustment	N	Tilt	Tilt
Head rests	Integrated	Adjustable	Adjustable
Outside mirror type	Inside manual	Manual remote control	Manual remote control
Fog Lamps	N	Y	Y
Coloured Door Handles	N	N	Y
Tyres	165/70 R14	165/80	165/80
Keyless entry	N	N	Y
ORVM with indicators	N	N	Y
Security alarm system	N	N	Y

Source: Company, PhillipCapital India Research

The Celerio has "safe" looks - the rear has similarities with the Alto; the front has wrap around lamps

The interiors plastic quality and features are goos for an compact car but falls short of a Ritz/Swift

The room in the backseat is sufficient; boot space is inline with the Swift/Ritz

Source: PhillipCapital India Research

The AMT felt a little uneven particularly at the lower gears

Source: PhillipCapital India Research

Automated Manual Transmission – the technology, advanatages and disadvanatges

The AMT or Automated Manual Transmission in the Celerio is utilises the system from Magnetti Mirelli. The gear box is similar to that of a Manual – it performs the same functions - opening and closing the clutch, and engages the gears – these are executed by hydraulic actuators with the support of a Transmission Control Unit (the TCU). This entire unit is then incorporated within the conventional gearbox assembly.

A conventional automatic on the other hand, uses a fluid coupling or torque converter, and planetary gear sets to provide a range of gear ratios.

While the technical explanations can be long winding and complex (specially for non-engineers such as myself), the net impact is three fold:

1. The AMT is less complex and has lower costs
2. The mileage of the AMT is similar to a manual whereas a conventional automatic has lower fuel economy
3. The conventional automatics have smoother gear shifts as just one gear position is able to generate multiple gear ratios.

It is for the third reason that AMTs have not been particularly successful in the largely manual transmission European market. The Indian market though is different from the European market in two aspects – (a) the average number of gear shifts in India is much higher and (b) there is a greater accent on fuel efficiency/cost effectiveness.

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Net sales	**426,126**	**413,411**	**471,751**	**541,448**
Growth, %	23	-3	14	15
Other income	9,754	10,193	11,300	12,564
Total income	435,880	423,604	483,051	554,012
Raw material expenses	-325,588	-299,310	-341,548	-393,362
Employee expenses	-10,696	-13,022	-14,860	-17,326
Other Operating expenses	-57,300	-58,691	-66,326	-76,188
EBITDA (Core)	**42,297**	**52,581**	**60,317**	**67,136**
Growth, %	68.3	24.3	14.7	11.3
Margin, %	9.9	12.7	12.8	12.4
Depreciation	-18,612	-21,141	-23,991	-26,016
EBIT	**23,685**	**31,440**	**36,326**	**41,120**
Growth, %	72.3	32.7	15.5	13.2
Margin, %	5.6	7.6	7.7	7.6
Interest paid	-1,898	-1,748	-1,548	-1,348
Other Non-Operating Income	8,124	7,920	9,065	11,070
Pre-tax profit	**29,910**	**37,612**	**43,844**	**50,841**
Tax provided	-5,989	-9,027	-10,522	-12,710
Profit after tax	**23,921**	**28,585**	**33,321**	**38,131**
Net Profit	**23,921**	**28,585**	**33,321**	**38,131**
Growth, %	46.3	19.5	16.6	14.4
Net Profit (adjusted)	**23,921**	**28,585**	**33,321**	**38,131**
Unadj. shares (m)	302	302	302	302
Wtd avg shares (m)	302	302	302	302

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Cash & bank	16,250	22,309	30,456	55,004
Debtors	14,237	11,505	13,129	15,069
Inventory	18,407	16,358	18,533	21,172
Loans & advances	29,789	29,789	29,789	29,789
Total current assets	78,683	79,962	91,907	121,034
Investments	70,783	75,783	90,783	105,783
Gross fixed assets	198,007	238,007	263,007	288,007
Less: Depreciation	-100,015	-121,156	-145,147	-171,163
Add: Capital WIP	19,422	19,422	19,422	19,422
Net fixed assets	117,414	136,273	137,282	136,266
Total assets	**266,880**	**292,018**	**319,972**	**363,083**
Current liabilities	54,371	62,578	59,487	66,571
Provisions	8,741	8,891	9,265	9,812
Total current liabilities	63,112	71,469	68,752	76,383
Non-current liabilities	17,979	17,979	17,979	17,979
Total liabilities	81,091	89,448	86,731	94,362
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	184,279	201,060	231,731	267,211
Shareholders' equity	185,789	202,570	233,241	268,721
Total equity & liabilities	**266,880**	**292,018**	**319,972**	**363,083**

Source: Company, PhillipCapital India Research Estimates

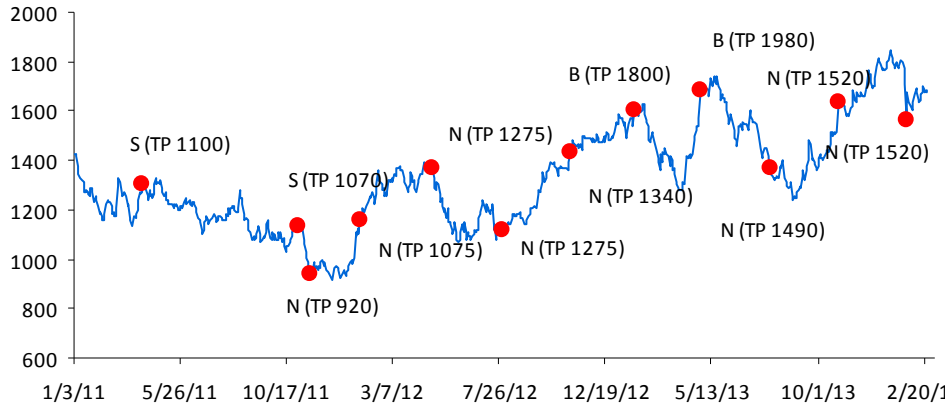
Cash Flow

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	29,910	37,612	43,844	50,841
Depreciation	18,612	21,141	23,991	26,016
Chg in working capital	-120	12,987	-6,889	2,505
Total tax paid	-4,326	-8,699	-10,149	-12,163
Cash flow from operating activities	**44,076**	**63,040**	**50,797**	**67,199**
Capital expenditure	-54,705	-40,000	-25,000	-25,000
Chg in investments	-9,309	-5,000	-15,000	-15,000
Cash flow from investing activities	**-64,014**	**-45,000**	**-40,000**	**-40,000**
Free cash flow	-19,938	18,040	10,797	27,199
Equity raised/(repaid)	12,645	-9,153	0	0
Debt raised/(repaid)	1,523	0	0	0
Dividend (incl. tax)	-2,341	-2,828	-2,651	-2,651
Cash flow from financing activities	**11,827**	**-11,981**	**-2,651**	**-2,651**
Net chg in cash	-8,111	6,059	8,146	24,548

Valuation Ratios

	FY13	FY14E	FY15E	FY16E
Per Share data				
EPS (INR)	79.2	94.6	110.3	126.2
Growth, %	39.9	19.5	16.6	14.4
Book NAV/share (INR)	615.0	670.6	772.1	889.6
FDEPS (INR)	79.2	94.6	110.3	126.2
CEPS (INR)	140.8	164.6	189.7	212.4
CFPS (INR)	119.0	182.5	138.1	185.8
DPS (INR)	7.5	7.5	7.5	7.5
Return ratios				
Return on assets (%)	10.3	10.6	11.2	11.4
Return on equity (%)	12.9	14.1	14.3	14.2
Return on capital employed (%)	13.3	13.7	14.3	14.3
Turnover ratios				
Asset turnover (x)	4.0	3.2	3.5	3.9
Sales/Total assets (x)	1.7	1.5	1.5	1.6
Sales/Net FA (x)	4.3	3.3	3.4	4.0
Working capital/Sales (x)	0.0	(0.0)	(0.0)	(0.0)
Working capital days	2.8	(8.7)	(2.6)	(4.3)
Liquidity ratios				
Current ratio (x)	1.3	1.2	1.4	1.7
Quick ratio (x)	1.0	0.9	1.1	1.4
Interest cover (x)	12.5	18.0	23.5	30.5
Dividend cover (x)	10.6	12.6	14.7	16.8
Total debt/Equity (%)	7.5	6.9	6.0	5.2
Net debt/Equity (%)	(1.3)	(4.2)	(7.1)	(15.3)
Valuation				
PER (x)	21.2	17.7	15.2	13.3
Price/Book (x)	2.7	2.5	2.2	1.9
Yield (%)	0.4	0.4	0.4	0.4
EV/Net sales (x)	1.2	1.2	1.0	0.9
EV/EBITDA (x)	11.9	9.5	8.1	6.9
EV/EBIT (x)	21.3	15.8	13.5	11.3

Recommendation Chart



Source: PhillipCapital India Research

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